

April 28, 2020

Bwembya Chikolwa
1025 Eldorado Blvd.
Broomfield, CO 80021
Mailstop: (Broomfield, 23-506)

Re: Response to Comments on the 2020 Capitalization Rate Study, Telecommunications

Dear Mr. Chikolwa:

The department would like to thank you for taking the time to review our study and for providing additional information for us to consider. The following information was provided: your submission email received April 7, 2020, which included a letter and attached appendices that detailed what areas of our study should get further consideration.

The following summarizes the main areas identified for further consideration:

- Guideline Companies
- Capital Structure
- Cost of Debt
- Cost of Equity
- Arguments Against Direct Capitalization

We have reviewed and considered the information provided and have made the following adjustments:

- Charter was excluded from the study due to revising the size criteria from under \$200B to under \$100B
- The exclusion of Charter resulted in changes to:
 - Capital Structure
 - Beta
 - Direct Capitalization Equity Rates
 - Direct Capitalization Debt Rates
- A debt rating was assigned to unrated companies based on interest coverage ratios resulting in a slight increase to our cost of debt
- The CAPM approach was modified to compute an Ex Ante and Ex Post conclusion then carried over to the summary page where weight was assigned to the various equity estimates

The chart on the next page summarizes the impact of these changes to the Yield and Direct Capitalization Rates:

Description	Initial Study	Final Study
Capital Structure:		
% Equity	45%	35%
% Debt	55%	65%
Yield Capitalization Rate (WACC):		
Cost of Equity	9.20%	10.20%
Cost of Debt	7.15%	7.40%
WACC	7.20%	7.30%
Direct Capitalization Rates		
NOPAT Equity Rate	4.00%	4.90%
GCF Equity Rate	27.50%	30.90%
Direct Debt Rate	6.15%	6.40%
NOPAT Capitalization Rate	4.40%	4.90%
GCF Capitalization Rate	15.00%	14.00%

Again, I would like to thank you for your comments and the additional information you provided for our consideration. I look forward to any further discussion we may have throughout the 2020 appraisal season.

Our final 2020 Capitalization Rate Study for Telecommunications can be found at:

<https://mtrevenue.gov/publications/cap-rate-studies/>

Sincerely,



Doug Roehm, Unit Manager
Centrally Assessed & Industrial Properties
Montana Department of Revenue
PO Box 7149 | Helena, MT 59604